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NORTHERN DIVISION
OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

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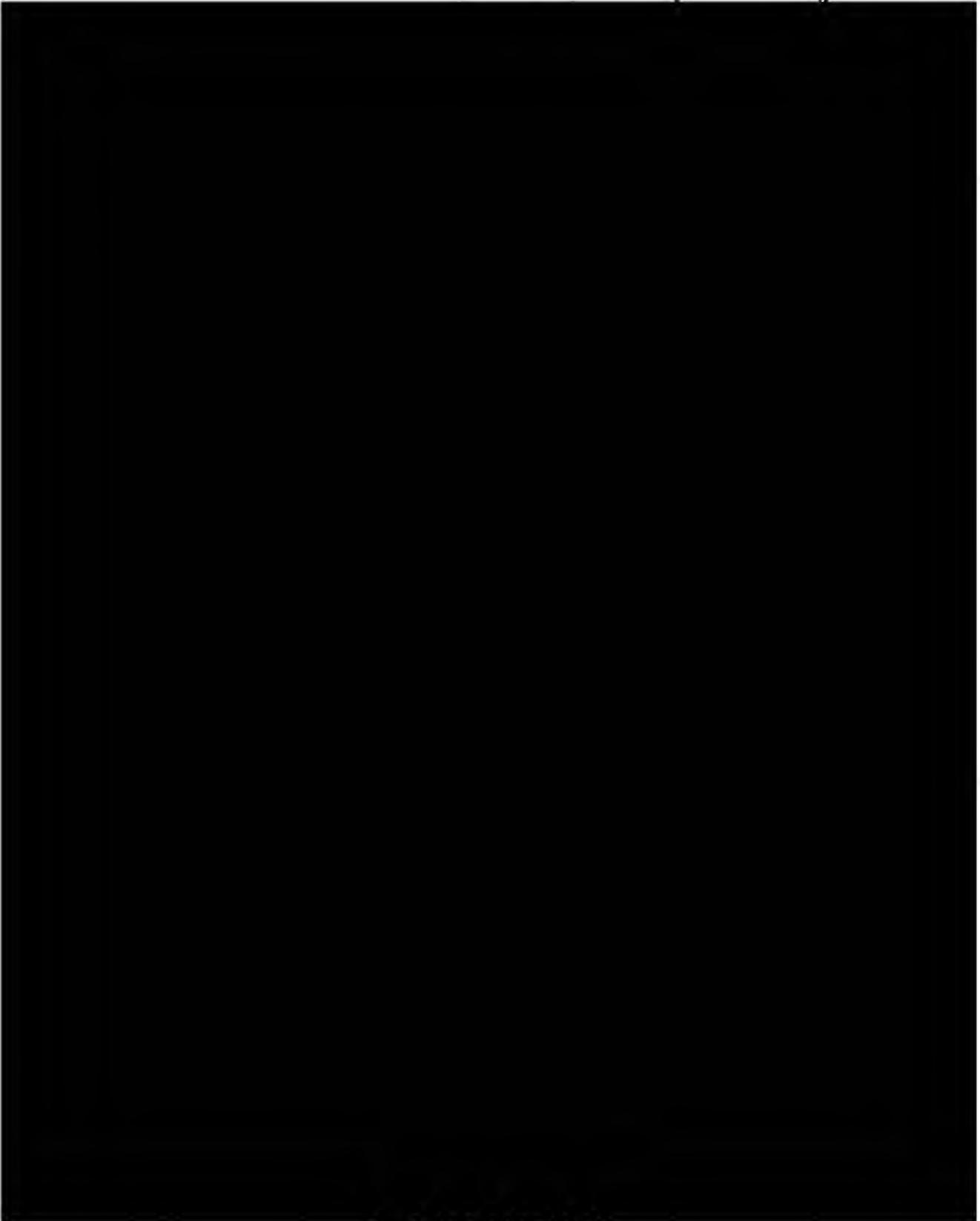
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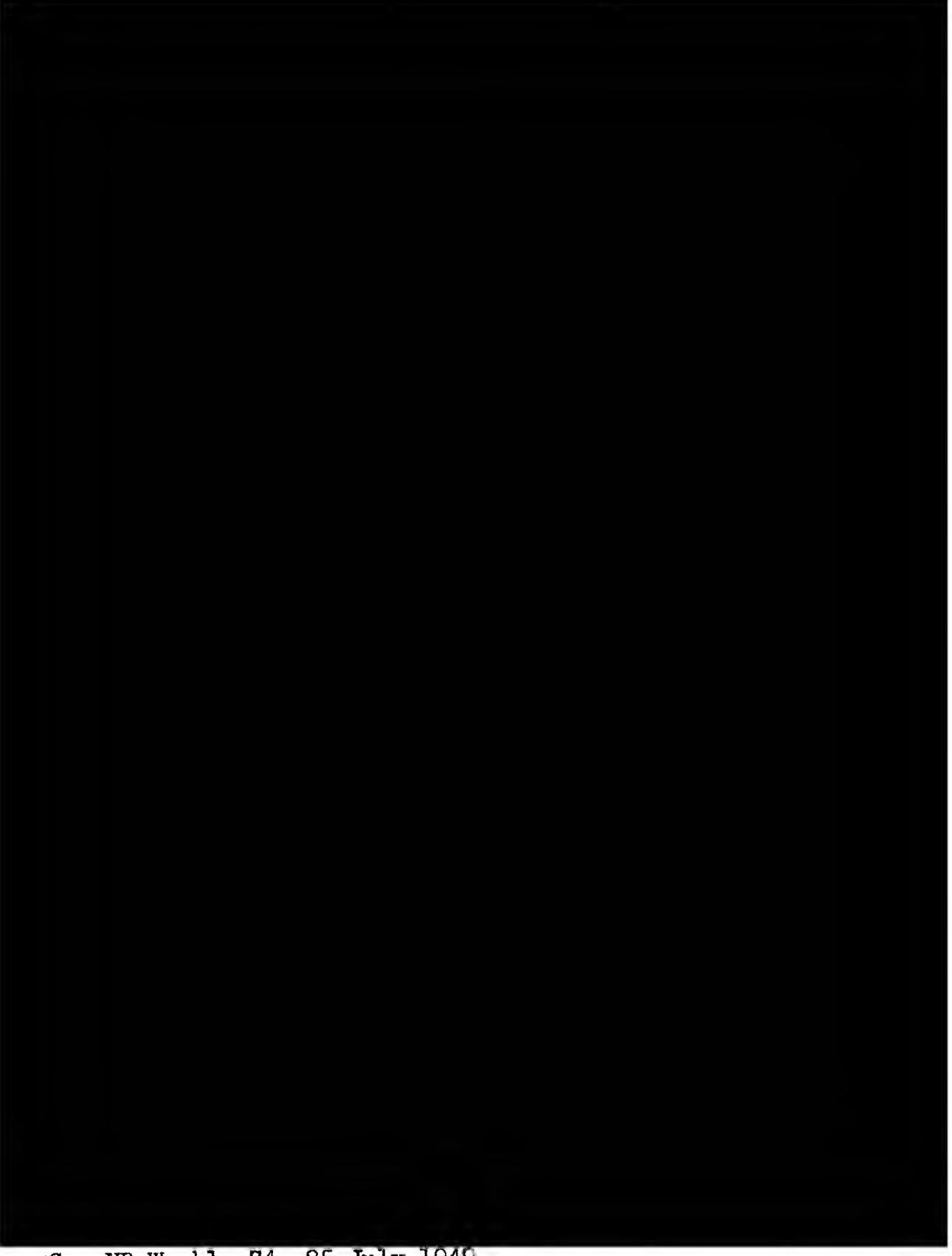
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Union of South Africa

7. South Africa piqued at refusal of ExImBank loan

The keen disappointment in South Africa over Finance Minister Havenga's failure to raise an ExImBank loan while in Washington last month springs partly from the basic facts of the Union's immediate economic outlook, which is not a bright one, and partly from injured national pride. Neither factor is as yet strong enough to threaten the Malan Government's hold on power, nor is South Africa's fundamental political and military alignment with the US in any way in question, but the feeling is already apparent in Government circles that the Union has been treated "like a South American republic" and threats of retaliation against US business interests have been made by Economic Affairs Minister Louw. This disappointment will probably not be greatly qualified by the small loan of \$10,000,000 from New York bankers which was announced on 7 October.

According to most of the relevant indices, South Africa's economic position continues to deteriorate. Foreign

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exchange reserves have levelled off at a new low of some £50 million. For current needs the Union applied on 13 September for re-payment of the final installment of the 1948 £30 million gold loan to the UK--just too early to reap a several million pound profit from sterling devaluation. The immediate advantages of currency devaluation, chiefly the added sterling worth of gold, the Union's largest export, are already threatened by the expected demand of miners for higher wages and the rise in most costs of production. The Government found it necessary to check commodity price rises by the extension of controls on 19 September to include all goods imported from countries outside the sterling area which were previously unaffected. Nor does domestic production show promise of keeping the national economy in equilibrium: unemployment is slowly increasing, particularly in the building, clothing and engineering industries. Furthermore, the fall in customs duties resulting from the import restrictions has forced the Government to borrow a total of £48 million from the South African Reserve Bank so far this year in order to meet its financial commitments. South Africa's own favorite remedy for this and its other economic ills--a rise in the price of gold--was turned down again last month when the International Monetary Fund gave a cool reception to Havenga's plea for action along this line.

The South African reaction to the refusal of the ExImBank loan has so far not been a constructive one; there is no indication that the Government is yet prepared to outline more concretely the projects for which ExImBank money would be spent, permit a certain amount of inspection, or otherwise meet the conditions which might induce the Bank to reconsider its action. Instead, on 26 September the Government announced that (ostensibly because of devaluation) the value of raw materials purchased from the US, but not from the sterling area, would be cut 50% during the first half of 1950. On the same day Minister Louw, though he did not expressly link the new restrictions to the suspension of the dollar loan negotiations, did state that relaxation of the controls might be possible if a US loan could be arranged. The ExImBank has indicated that it would still consider extension of a loan up to \$50 million, but not unless South Africa adopts an approach shacking less of blackmail and accepts certain safeguarding conditions on the loan's use. It is likely, however, that South Africa's injured pride, plus the loan just obtained from US private sources and the

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Scope of other loans in the UK and Switzerland, will add up to postponement for some time of an acceptable application to the ExImBank.

SWEDEN - THE NETHERLANDS

CENTRAL

1. Scandinavia favors liberalized trade.

Favorable comment has been elicited from the Scandinavian countries, which traditionally have favored the greatest possible freedom of exchange and trade, by the decision of the OEEC Trade Committee to consider steps for the liberalization of trade. In order to avoid the dissipation of gold and dollar exchange the Scandinavian delegations took most favorably on global quotas, but agree that such quotas will not liberalize trade to the same extent as free lists. However, they plan to place commodities on free lists wherever possible and to establish global quotas on other commodities on which quantitative restrictions are still considered necessary.

Sweden is prepared to remove all exchange controls and internal price controls on commodities placed on global quotas and is now contemplating placing textiles and chemicals on such quotas, but will possibly limit participation to Marshall Plan countries. Likewise, authorities in Denmark and Norway favor removing trade restrictions in view of the possibilities for increased exports to dollar areas brought about by devaluation, reduced domestic purchasing power, increased production, and the effects of ECA aid.

DENMARK

2. Possibility of elections reduced

Agreement on the question of devaluation between the minority Social Democratic Government and the opposition Moderate Liberal Party has somewhat reduced the likelihood of an immediate Government crisis in Denmark, but the situation remains fluid and new elections are still a possibility. The Moderate Liberals have consistently criticized Government price control and supply laws, contending that these controls

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have delayed price reduction and restoration of the ability of Danish export industries to compete in the world market. By supporting the Government on devaluation, the Moderate Liberals have limited the field in which they can criticize Government economic controls arising out of devaluation, but they can continue to attack the Government on the extent to which economic controls are necessary.

At the opening session of the recently reconvened Rigsdag the Government indicated that it intends to continue its previous economic policy and submitted several bills calling for the extension of existing economic controls. Debate on these measures is scheduled to begin 13 October, and although the Government's policies will certainly be criticized it is unlikely that opposition will be sufficiently strong on this issue to result in a governmental crisis.

SWEDEN

3. Continued military cooperation

Despite the fact that Swedish insistence on following a neutral course (in contrast to Danish and Norwegian adherence to MAP) tends to limit the scope of Scandinavian military cooperation, sufficient evidence is available to indicate that Sweden is not willing to eliminate entirely such cooperation. [REDACTED]

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[REDACTED] joint maneuvers, exchange of military personnel for training purposes, courtesy visits of high ranking officer, and defense talks at low level continue.

One of the most important aspects of this cooperation, aside from its existence, is the apparent willingness of Sweden to develop plans for air defense in conjunction with Norway. Such plans as may be in the process of development are shrouded in secrecy, and Sweden's future cooperation may well depend on successful maintenance of secrecy in undertakings of this nature.

Many possibilities of mutual assistance developed during the Scandinavian defense talks last fall, and Swedish fear of complete isolation has given impetus to this co-operation. Since the conclusion of these talks and the adherence of Denmark and Norway to MAP there has been much open

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support in Sweden, particularly by military leaders, for military ties with the West. With a Government committed to, and apparently determined to hold, a neutral course, cooperation with Norway and Denmark, though greatly limited, offers a good opportunity for at least some contact with the West. And certainly Norway and Denmark have long indicated a willingness to cooperate with Sweden as much as possible.

Such cooperation as is accomplished will somewhat strengthen the defensive capabilities of Scandinavia. However, it will be too limited to be more than indirectly beneficial to planning the defense of Western Europe, and

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